

Finance and Resources Committee

10.00am, Thursday, 21 November 2023

Revenue Budget Framework and Medium-Term Financial Plan (MTFP) 2024/29 – progress update

Executive/routine
Wards

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the updates to financial planning assumptions set out in the report, resulting in a potential reduction in the residual savings requirement in 2024/25 to £11.9m whilst also noting the significant remaining gaps in subsequent years;
 - 1.1.2 note the development of a financial plan to deliver the annual budget and integrate key processes into the budget development such as the medium-term financial plan and planning performance framework;
 - 1.1.3 note the further risks contained within the budget framework, particularly those in respect of the required level of additional provision for inflationary factors, including pay, demand-led services and funding requirements for the Edinburgh Integration Joint Board;
 - 1.1.4 note that a further update, incorporating the impact of the provisional 2024/25 Local Government Finance Settlement and presenting further proposals to

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address the resulting residual savings requirement, will be brought to the Committee's meeting on 6 February 2024;

1.1.5 note the development of budget setting principles and the continuing development of the change programme to address the significant incremental annual MTFP gaps beyond 2024/25; and

1.1.6 refer this report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Revenue Budget Framework and MTFP 2024/29 – progress update

2. Executive Summary

- 2.1 The report sets out the outcome of the most recent review of the Council's financial planning assumptions, resulting in a potential reduction in the residual savings requirement in 2024/25 to £11.9m.
- 2.2 A further update, incorporating the impact of the provisional 2024/25 Local Government Finance Settlement and presenting further proposals to address the resulting residual savings requirement, will be brought to the Committee's meeting on 6 February 2024. A refreshed Medium-Term Financial Plan (MTFP) integrated into the financial plan for the Council will also be presented at that time. Until then, members of the Committee are reminded that the projected budgetary position facing the Council over the next five years, was reported to the Finance and Resources Committee on 20 June 2023, detailing a forecasted gap of £172.7m by 2028/29.
- 2.3 In order to close the financial gap, a change programme has been mobilised in 2023/24 with four key strategic cross-cutting themes. These themes are (i) Organisational Reform and Efficiency, (ii) Asset Rationalisation and Service Delivery, (iii) Third Party Spending and (iv) Partnerships and Prevention. Programmes and projects within these themes will continue to be developed and delivered and will underpin the transformation required by the Council to close the gap.

3. Background

- 3.1 At the meeting of the Finance and Resources Committee on 21 September 2023, members considered an update on the Council's Medium-Term Financial Plan (MTFP). Based on a review and updating of relevant planning assumptions, an incremental gross savings requirement of at least £58.6m was projected in 2024/25, with significant incremental annual gaps thereafter.
- 3.2 While noting the potential for an element of the 2024/25 requirement to be met, subject to national and local policy decisions, from known and proposed reforms to

Non-Domestic Rates and Council Tax, the report emphasised the urgent need to accelerate development of proposals within the change programme and from Directorates to address the gap in the Council's Medium-Term Financial Plan (MTFP). It was furthermore reiterated that many of these proposals will likely involve increasingly difficult choices in order to deliver the Council's priorities and maintain statutory service delivery. It is likely that the change programme will have to propose transformation that includes service reductions, in order to maintain expenditure in line with available income.

- 3.3 This report provides an overview of the outcome of the latest review of these planning assumptions, including updates in respect of potential additional income-raising through Council Tax and Non-Domestic Rates, some proposed budget setting principles to guide budget setting over the life of the MTFP, as well as progress in developing the content of the MTFP.

4. Main report

Review of expenditure and income assumptions:

- 4.1 The starting point for updating of the incremental gap for 2024/25 remains the £58.6m included in the September report. The composition of this sum is shown in Appendix 1. This sum includes £21m in respect of the Edinburgh Integration Joint Board (EIJB). If necessary a verbal update will be given to the Finance and Resources committee on this following the Finance Update report to the EIJB on 16 November.

Factors adding to the projected gap

Service pressures

- 4.2 The month five revenue monitoring report elsewhere on today's agenda points to significant net unbudgeted in-year pressures totalling £7.650m across a number of areas including Early Years, Out-of-Authority Placements for Young People within the Council's care, Home-to-School Transport, Culture and Libraries. Mitigations to address these on a sustainable basis will require to be identified.

Provision for delay/shortfall in delivery of pre-approved savings

- 4.3 The budget framework includes £5.4m of incremental approved savings in 2024/25, including those in respect of Best Value Reviews (in-year saving of £2m, building on the earlier approved saving of £0.5m in 2023/24) and Education Welfare Officers (EWOs; in-year saving of £0.2m, representing the additional full-year effect of the £0.4m approved saving in 2023/24 i.e. £0.6m in total)¹.

¹ The remaining savings relate to homelessness supply-side initiatives (£1.1m), Strategic Review of Parking (£1m), property rationalisation (£0.5m), redeployment (£0.2m) and the full-year effect of other savings in Children, Education and Justice Services (£0.4m).

- 4.4 Based on the most recent progress assessment, the full delivery of the £2.5m best value review saving from Waste and Cleansing is not being assumed until 2025/26, with £1m of this total being assumed to be achieved by the end of 2024/25. This is to ensure that the required changes to deliver the saving can be effectively delivered. Provision has been made to accommodate this re-profiling. In addition, following the decision of Council on 2 November 2023, full scrutiny of the outcome of the EWO review will be undertaken at the meeting of the Education, Children and Families Committee on 23 January 2024. In view of this, the budget framework now provides for a shortfall in savings delivered from these reviews in 2024/25 of up to £2.1m.

Recurring impact of 2023/24 pay offer

- 4.5 On 22 September 2023, COSLA as employer made a “best and final” offer for 2023/24 to the non-teaching trade unions with a view to avoiding industrial action. This offer increased the in-year value of the pay uplift across local government by some £90m, comprising £80m from the Scottish Government, supported through a one-off reprioritisation/redirection of funding, and a £10m recurring contribution from councils, with Edinburgh’s proportionate share being £0.8m.
- 4.6 Following rejection of this offer by the largest representative trade union UNISON, a revised offer was then made on 3 November 2023, backdating further elements of the uplift to 1 April 2023. The associated costs will be met initially by councils in 2023/24, with reimbursement from the Scottish Government then following in 2024/25. This offer is currently the subject of a consultative ballot with UNISON members, with a recommendation to accept. As the Scottish Government has previously confirmed baselining of this funding from April 2024, however, there is no additional incremental impact on the budget framework.

Factors reducing the projected gap

Management of Directorate pressures

- 4.7 Given the tightness of the overall revenue budget framework, relevant Executive Directors have been asked to identify measures totalling £7.650m to manage pressures within their respective areas of responsibility, where appropriate bringing these to Committee for consideration.

Additional Council Tax buoyancy

- 4.8 The period five revenue monitoring report elsewhere on today’s agenda projects a favourable overall in-year variance within Council Tax income of £4.0m, attributable to a combination of slightly higher collection rates and additional buoyancy (i.e. increases in the number and profile of properties) relative to baseline assumptions. Although an element of this additional income was incorporated within the budget framework update report on 20 June 2023, a further £2.0m is now available for inclusion.

Interest on available cash balances

4.9 As also noted in the month five revenue monitoring report, significant additional income is anticipated on available cash balances in 2023/24 based on current interest rates. Although both interest rates and relevant balances are expected to reduce in 2024/25, it is estimated that an additional £2m relative to current framework assumptions can be made available through this source.

Additional income through Council Tax

- 4.10 Consistent with previous years, the budget framework report considered by the Committee on 20 June 2023 assumed a 3% increase in Council Tax rates and this level of increase underpins the £58.6m starting gap for 2024/25 above. The report noted, however, that a 5% rise, in line with the actual level of increase for 2023/24, would reduce this gap by some £7m.
- 4.11 On 17 October 2023, the First Minister announced an intention to freeze Council Tax rates across Scotland in 2024/25 to support people struggling with the effects of high inflation. Implicit within this announcement was both a freeze of absolute rates at current levels and not proceeding with plans included in an earlier joint consultation with COSLA to amend multipliers for higher-banded properties.
- 4.12 While noting the (then) imminent closure of the consultation, the report to the Committee's meeting on 21 September did not make any direct assumption around any additional income arising and, as such, that these changes are not now proceeding at this time does not affect the incremental savings requirement.
- 4.13 The First Minister's announcement also indicated that the Council Tax freeze would be fully funded. The level and basis on which this funding will be made available, however, is subject to on-going discussion between COSLA and the Scottish Government. During the nine-year period of the previous freeze, the Scottish Government provided incremental annual compensating funding equal to income that would have been generated by a 3% increase. As a result, the Council's overall revenue grant allocation continues to include £63m of compensating funding linked to the previous freeze in recognition of relevant income foregone².
- 4.14 In recognising the overarching needs basis of the Local Government Finance Settlement, previous years' distributions were based on the principle of a common percentage reimbursement for income foregone and not influenced by publicly stated positions in individual authorities. Discussions on the appropriate level of compensation may therefore place greater emphasis upon the actual average level of Council Tax increase levied in Scotland in 2023/24 (5.4%) and wider inflationary projections. It is being assumed at this stage, however, that this compensation will be at a level not less than 5%, resulting in an assumption of an additional £7m through this source without detriment to the level of funding provided through the remainder of the Council's grant funding allocation.

² In view of the on-going impacts of the pandemic, the Scottish Government provided, on a one-off basis, compensating funding of £9.6m to support a further one-off freeze in 2021/22.

- 4.15 On 8 November, the Scottish Government confirmed that draft regulations allowing local authorities to charge up to double the full rate of Council Tax on second homes had been laid before the Scottish Parliament. If approved, local authorities would be able to apply the Council Tax premium on homes that are not used as a main residence. Given that, in addition to being subject to Parliamentary approval, both the uses to which any additional funds raised may be applied and potential policy impacts of bringing properties back into use remain to be confirmed, further details will be provided in the next update report.

Potential further measures to reduce the incremental gap

Changes in employer pension contributions

- 4.16 The Local Government Pension Scheme for non-teaching staff is subject to a triennial valuation, at which point forecast scheme assets are compared to projected liabilities. The valuation as of 31 March 2023 indicated an overall funding level of 157% of scheme liabilities and, as such, provides an opportunity to review the assumed level of employer contributions over the medium term. The current contribution rate is 22.7%, with every 1% representing some £3.9m. Discussions with Lothian Pension Fund are continuing to determine, given current funding levels, what level of reduction could be supported, consistent with the longer-term sustainability and risk appetite of the Fund. For the purposes of the Council's wider financial planning, a 4% reduction in the employer's rate, equivalent to a saving of £15.6m, has been assumed at this time. For clarification, this does not impact employees' benefits from the pension fund. It is not possible to offer any reduction in employee contributions as those are set by legislation.

Edinburgh Integration Joint Board (EIJB)

- 4.17 Assuming full delivery of the savings contained within the EIJB's Medium Term Financial Strategy (MTFS), an estimated total deficit for 2024/25 of £21m is being forecast³. This forecast is subject to a number of significant risks, including the full-year effect of growth in performance-related care at home spend in 2023/24. Of this £21m gap, while progress will continue to be closely monitored and reported to the Committee, for planning purposes at this stage, it is being assumed that £11m will be addressed through savings measures identified and agreed by the EIJB, with the remaining £10m shortfall then split equally between the Council and NHS Lothian. As this report is published ahead of the EIJB meeting a verbal update can be provided to the committee if necessary.

Non-Domestic Rates Empty Property Relief

- 4.18 A report elsewhere on today's agenda seeks members' approval of a revised Non-Domestic Rates Empty Property Relief policy following full devolution of relevant powers to local authority control with effect from 1 April 2023.

³ The overall projected deficit in 2024/25 reflects a £20m assumed shortfall in Scottish Government funding for demographic pressures across 2023/24 and 2024/25.

4.19 The revised policy, with a proposed implementation date of 1 April 2024, would see significant reductions in the current levels of relief granted with the intention of bringing additional properties back into use. The level of income such a policy would generate is a complex interaction of increases in sums billed, collection rates and the response of the business sector (particularly given the material change to a longstanding policy), with the additional income generated also requiring to be offset by the liability for newly empty properties which, under devolved arrangements, now falls fully to the Council to meet. For the purposes of estimating next year's gap, however, £7m of additional income, subject to the draft policy's approval, is being assumed at this time.

Budget framework risks

4.20 The revenue budget framework continues to be subject to a number of risks, including but not limited to the following:

- (i) **EIJB** – inflation/performance-linked capacity increases and non-delivery of assumed savings, as well as assumed contribution from NHS Lothian for the associated cost of performance improvements;
- (ii) **Council Tax** – if the compensating financial support is lower than the 5% assumed increase and/or the Council sees a reduction in grant funding as a consequence of monies made available to fund the Council Tax freeze. The average level of increase levied in Scotland in 2023/24 was 5.4%. Each “uncompensated” 1% increase in Council Tax equates to £3.5m, each 1% movement in grant funding about £9m;
- (iii) **Brunstane Primary School investigative works and decant** – funding of associated costs;
- (iv) Whether any additional funding is required for **ALEOs**;
- (v) **Reinforced Autoclaved Aerated Concrete (RAAC) panels** – remedial and reinstatement/replacement costs;
- (vi) **Adequacy of inflationary provisions for 2024/25**, including pay;
- (vii) Impact of continuing high interest rates on **borrowing costs**; and
- (viii) Impact of **previous overstatement of city's population** on level of grant funding settlement to be received in December 2023.

Development of Budget setting principles

4.21 Many councils support the budget setting process by agreeing a set of principles to set the outcomes desired and guide the shaping of both spending and saving

priorities. The following principles are proposed for the Council to start to use in 2024/25 and during the development of the MTFP and accompanying change programme.

- a) The Council will not balance the budget strategy by using reserves.
- b) Resource allocation will be driven by the Council's Business Plan and Priorities. For example, we will use community planning and community empowerment to address deep rooted poverty in local areas.
- c) The Council will use community engagement to inform decision making, starting with developing a budget engagement strategy which runs throughout next year to inform the 2025/26 budget.
- d) The Council recognises that the Change programme supports closing the MTFP gap and requires appropriate commitment, resource and cross organisational support to deliver the amount and level of transformation required to deliver the savings.
- e) The Council will develop short-term and long-term transformational savings plans as part of the Change Programme.
- f) The Council will use best practice around business cases for our decision making and be open to invest to save opportunities.
- g) Before service cuts are considered, the Council will use data and benchmarking to demonstrate service outcomes offer best value, are as effective and efficient as possible and are modern, digital, inclusive and accessible.
- h) The Council is clear about what it can fund and where it needs to have more innovative approaches or to actively attract external funding to deliver priorities.
- i) Budgets should be realistic to achieve the objectives of the Council, and everyone must hold themselves to account for their delivery and sound financial management.

Production of Financial Plan – Budget and MTFP approach

- 4.22 The Council will deliver a financial plan that upholds our fiduciary duty to the residents of our community, in accordance with the Local Government (Scotland) Act 2003. This duty is an essential cornerstone of our commitment to responsible and effective governance. The Local Government (Scotland) Act 2003 explicitly establishes the fiduciary duty of local authorities, emphasising the legal and ethical obligation to act in the best interests of the citizens and communities we serve. As the stewards of public funds, we must ensure that every decision and action is undertaken with the utmost diligence, integrity and transparency.
- 4.23 Value for money is a guiding principle enshrined within this Act and intrinsic to our responsibility. Our residents rightly expect that the resources they entrust us with are employed efficiently and effectively, delivering outcomes that positively impact their lives. The prudent management of public finances not only safeguards public trust but also ensures the sustainability of essential services and the advancement of our city.
- 4.24 The Medium-Term Financial Plan is a crucial vehicle for the City of Edinburgh Council, it encompasses a strategic approach to financial management that

examines the resources available to the council over multi-year budgets, aiming to create a sustainable and resilient fiscal framework.

- 4.25 This approach not only facilitates the alignment of financial resources with long-term goals but also enhances transparency, accountability, and the efficient allocation of resources. With effective medium-term financial planning, we can better anticipate financial challenges, make informed decisions, and ensure that public funds are utilised effectively to address the evolving needs and aspirations of our community. This approach will aid the organisation navigate economic uncertainties, safeguard essential services, and promote the long-term well-being of Edinburgh's residents.
- 4.26 Finance will deliver for the 2024/25 annual budget a financial plan which will encompass the MTFP and other budget processes into a single strategy document with clear governance for future update and development, aligned with the Council's priorities and business plan.

The Change Programme

- 4.27 Despite the challenging budget position over the coming years, the focus of the financial plan and associated change programme should be on our three priorities as set out the business plan: ending poverty in Edinburgh, becoming a net zero city and creating good places to live and work.
- 4.28 Discussions have been held with groups around the challenge of building a change programme that addresses gaps in the MTFP. This is not a new piece of work, rather it is an evolution of what has gone before. In particular, the change strategy in 2019 and the work undertaken in 2022 to identify early areas for transformation.
- 4.29 Officers have proposed that the Change Programme remains focused around four key transformation themes.
- **Organisational Reform and Efficiency** which covers projects about how services are designed and delivered, how the use of technology is maximised and how ways of working are changing post-COVID. This will reflect the increasing shift to online and digital service delivery and the use of technology in all aspects of the Council's work.
 - **Asset Rationalisation and Service Delivery** is about how we ensure residents and service users can access services locally and at the same time reduce the Council's carbon footprint in line with Business Plan priorities. This means spending less on buildings by rationalising into fewer, better buildings offering access to multiple services.
 - **Third Party Spending** is about the money we spend externally on goods and services to ensure we are driving best value from procurement, commissioning and contract management. It is also about ensuring the best balance between in-house and external delivery including commissioning services from the community and third sector.
 - **Partnerships and Prevention** is about how we work collaboratively with other partners in the City including other public sector bodies in areas like asset sharing

and service delivery. It will also include initiatives to avoid or reduce spending through prevention and early intervention.

4.30 We have a number of tools to guide and support this work:

- Our business plan - this sets out the Council's key priorities over the medium term.
- A strong governance structure via the MTFP and Strategic Programme Board - our mechanism to monitor delivery using service design principles and embed a culture of change in how we work.
- Development of our new financial plan discussed above - currently under development but will help guide spending decisions.
- Our Planning and Performance Framework - embedded in how we work and aligned with the business plan, supporting us to be data led.
- Our Public and Internal Consultation and Engagement strategy - a new way of engaging and consulting with the public throughout the year.
- Development of our People Strategy 2024-27 – setting out how we'll continue to invest in colleagues, further develop a positive and engaging culture and work together to make the Council a diverse and welcoming place to work.

5. Next Steps

- 5.1 A timetable of key dates in the run-up to setting of the 2024/25 budget is included as Appendix 4.
- 5.2 Officers will continue to monitor closely key planning assumptions and reflect these as appropriate within the budget framework.
- 5.3 A refreshed MTFP integrated into the financial plan for the Council will be presented at the February meeting of the Finance and Resources Committee.

6. Financial impact

- 6.1 The report sets out the outcome of the most recent review of the Council's financial planning assumptions, resulting in a potential reduction in the residual savings requirement in 2024/25 to £11.9m. Once the outcome of the provisional Local Government Finance Settlement is known, an update report, including proposals to address any remaining shortfall, will be brought to the Committee's next meeting for consideration.
- 6.2 Significant incremental gaps continue to be forecast in subsequent years, emphasising the urgent need to accelerate development of proposals through the Council's MTFP and from Directorates to address these shortfalls. Many of these proposals will likely involve increasingly difficult choices about the Council's priorities, including service reductions, across all service areas to maintain expenditure in line with available income.

7. Equality and Poverty Impact

7.1 There are no direct relevant impacts arising from the report's contents.

8. Climate and Nature Emergency Implications

8.1 There are no direct relevant impacts arising from the report's contents.

9. Risk, policy, compliance, governance and community impact

9.1 There is no direct relevance to the report's contents, although specific proposals brought forward as part of the MTFP and through Directorates will be the subject of elected member and public engagement as appropriate.

10. Background reading/external references

10.1 [Revenue Budget Framework 2024/29 – progress update](#), Finance and Resources Committee, 21 September 2023

10.2 [Financial Strategy and Medium-Term Financial Plan \(MTFP\)](#), Finance and Resources Committee, 20 June 2023

11. Appendices

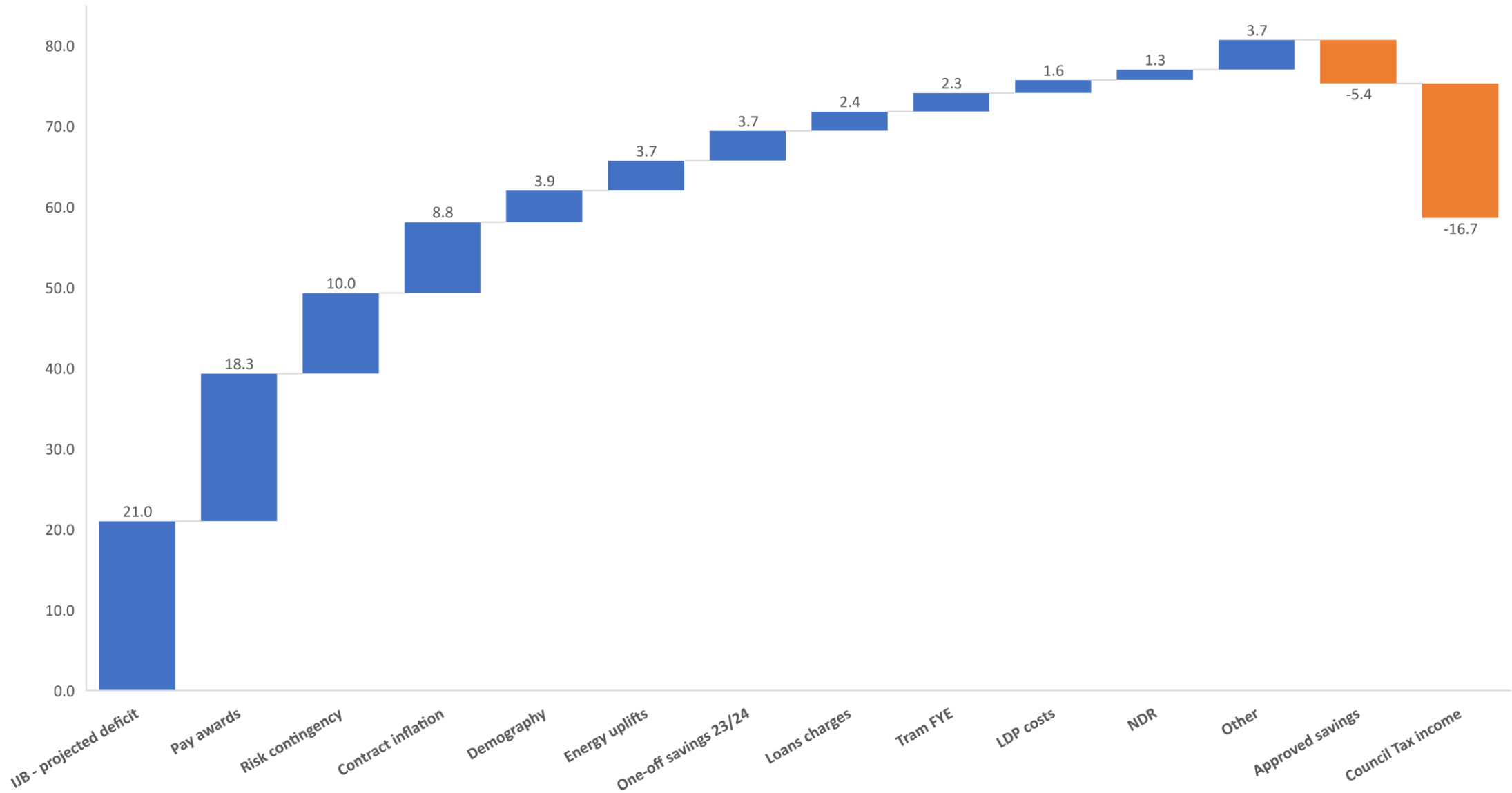
11.1 Appendix 1 – Composition of 2024/25 incremental projected budget gap of £58.6m

11.2 Appendix 2 – Revenue budget framework - updated planning assumptions, 2024/25

11.3 Appendix 3 – Progress in addressing projected funding gap, 2024/25

11.4 Appendix 4 – Key dates in the 2024/25 budget-setting process

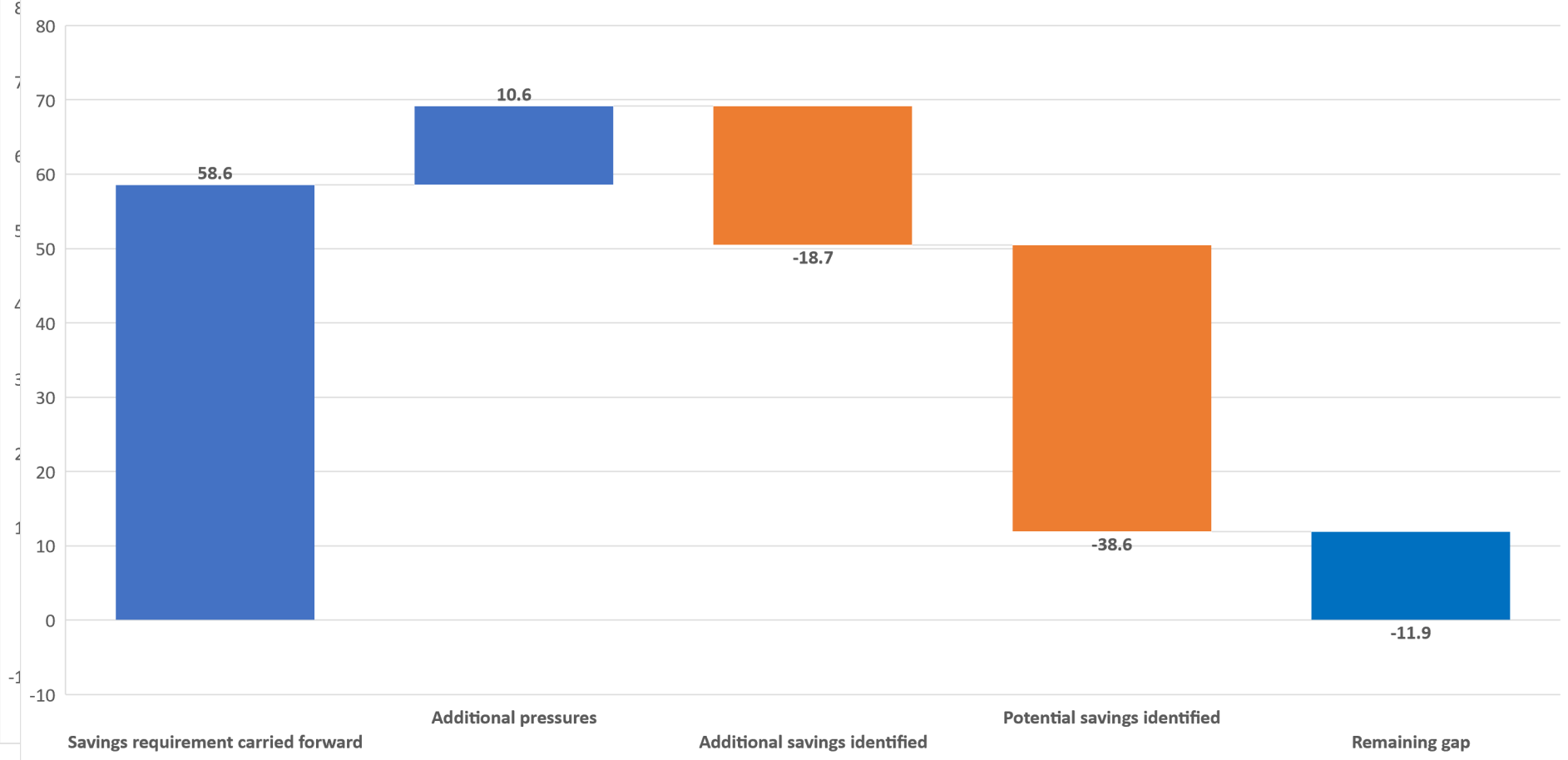
Composition of incremental projected 2024/25 gap of £58.6m



Revenue budget framework - updated planning assumptions, 2024/25

	£m	
Overall savings requirement, including Edinburgh Integration Joint Board, as reported to Finance and Resources Committee on 21 September 2023	58.6	
Changes increasing projected savings requirement:		
Service pressures	7.7	Significant elements include Early Years, Out-of-Authority Placements, Home to School Transport, Culture and Libraries
Provision for delay/shortfall in delivery of pre-approved savings	2.1	Best Value (£1.5m) and Education Welfare Officers (£0.6m)
Unfunded recurring element of non-teaching pay award for 2023/24	0.8	Based on implemented SJC (non-teaching) settlement of 3 November, 2023
Changes decreasing projected savings requirement:		
Assumed management of service pressures within Directorates	(7.7)	
Council Tax - additional buoyancy	(2.0)	Based on projected in-year position per month five report
Cash balances - additional interest received	(2.0)	Precise level of income received dependent upon rates and overall available balances
Council Tax - additional income/compensation	(7.0)	Following the announcement of an intended national freeze in 2024/25, it is being assumed either that (i) a Council Tax increase of 5% will be levied without any financial penalty or that (ii) additional funding sufficient to offset income foregone from not levying this 5% increase will be provided.
Updated savings requirement before further mitigations		50.5
Potential contributions towards gap:		
Reduction in employer's pension contributions	(15.6)	Based on a 4% reduction in employer's contributions from April 2024, with each 1% representing £3.9m
NDR Empty Property Relief	(7.0)	Estimated impact of revised policy implemented with effect from April 2024, reflecting additional billable amounts and associated collection rates, offset by assumed liabilities for properties becoming empty since April 2023
Assumed reduction in net EIJB pressure	(16.0)	Relative to gross projected gap of £21m, assumes £11m of savings identified by EIJB with remaining £10m shortfall split equally between Council and NHS Lothian, resulting in a net call upon the Council of £5m
Directorate proposals		TBC
Medium-Term Financial Plan		TBC
		(38.6)
Remaining savings to be identified		11.9

Progress in addressing projected gap, 2024/25



Key dates in 2024/25 budget-setting process

21 November – meeting of Finance and Resources Committee considered planning assumptions update and progress in development of Medium-Term Financial Plan

22 November – Chancellor of Exchequer publishes Autumn Statement, along with Office for Budgetary Responsibility forecast

5 December – meeting of the Pensions Committee

19 December – Scottish Government publishes draft Scottish Budget for 2024/25

22 December (approximate) – publication of provisional 2024/25 Local Government Finance Settlement (LGFS), providing Edinburgh-specific grant funding allocations for revenue and capital

6 February – meeting of the Finance and Resources Committee to consider implications of LGFS, any changes in other planning assumptions and options to address remaining funding gap, including proposals developed through MTFP or Directorates

22 February – meeting of Council to set 2024/25 revenue budget and 2024/34 capital budget strategy